

The BIPARTISAN RETIREMENT SECURITY ACT

A Comprehensive, Bipartisan Plan to Save Social Security

Congressmen Jim Kolbe (R-AZ) and Allen Boyd (D-FL)



HOW KOLBE-BOYD IS BENEFICIAL TO WOMEN



The Kolbe-Boyd bill contains several provisions that would be beneficial to women. Most notable is the minimum benefit provision that creates a protection from poverty within the traditional defined benefit from Social Security. Anyone who has worked 40 years would receive a guaranteed benefit from Social Security equal to 120% of the poverty level, regardless of their earnings history. This benefit is phased in over time such that an individual is first eligible for the minimum benefit provisions if they have worked for at least 20 years. At 20 years, an individual is entitled to a minimum benefit equal to 80% of poverty. Each year worked in excess of 20 years entitles the individual to an additional 2%, maxing out at 120% for 40 years of work. If a retiree's regularly computed benefit is higher, they would receive the higher benefit. Individuals would be entitled to the minimum benefit regardless of the balance in their personal account. Moreover, the minimum benefit would be calculated without regard to any benefit changes, thereby shielding low-income workers (traditionally women), from the reductions in the defined Social Security benefit.

The minimum benefit provision in the Kolbe-Boyd bill will provide a more robust guaranteed benefit than what is afforded by current law. As a result of this provision alone, 50% of women and 10% of men will do better under the Kolbe-Boyd plan than under current law. The provision is so strong that it effectively makes the personal accounts a "bonus" for low-income workers.

The Kolbe-Boyd plan also permits annual voluntary contributions to a personal account. Workers may contribute an additional \$2,000 per year to their personal account. Women who expect to take time off to raise children can make voluntary contributions both before and after their hiatus to "catch up" for the years of lost earnings.

For women who earn less than \$30,000, the Kolbe-Boyd plan provides a savings subsidy. For the first \$1 voluntary contribution, an eligible worker will receive a \$150 match from the federal government. Each additional dollar is matched 50% up to a cap of \$600 per year. For eligible workers who are unable to contribute voluntarily, the plan allows them to redirect a portion of their Earned Income Tax Credit (EITC) into their personal account to qualify for the savings match. Not only does the Kolbe-Boyd plan provide an opportunity for low income workers to save for their retirement, but it establishes a mechanism as well -- something most other plans do not do.

Lastly, the Kolbe-Boyd plan makes two important changes in the calculation of a beneficiary's primary insurance amount (PIA) -- changes that would substantially benefit women. First, the Kolbe-Boyd plan includes ALL years of earnings in the numerator of the PIA formula. Currently, Social Security calculates an individual's PIA by averaging the highest 35 years of earnings. Thus, the formula is: SUM(35 highest earnings years) DIVIDED BY 35. The net effect of including all years in the numerator is an increase in an individual's PIA. Second, although the Kolbe-Boyd bill would phase in an increase in the computation period from 35 to 40 years, the bill allows lower-wage earners in a two-earner family to drop five years, reducing their computation period to 35 years (i.e. no change from current law).

One of the reasons the Kolbe-Boyd bill will be a better deal for women is the changing nature of divorce. Current law stipulates that if a marriage lasts 10 years or more, a woman is entitled to 50% of her ex-spouse's Social Security benefit. Unfortunately, not only has the divorce rate skyrocketed since 1935 when Social Security was first adopted, but marriages also are not lasting as long. Two or more decades ago, divorces were fewer and occurred after 15-20 years of marriage. Today, divorces are more likely to occur in the fourth or seventh year of marriage. Moreover, more and more women are not re-marrying. As such, many women are heading into retirement alone and without the benefit of a spouse's Social Security income. Current law does not account for this changing demographic and many more women will retire with less security under current law than women of past generations.

As more and more women are raising children alone and working in lower-paying jobs, all of these elements in the Kolbe-Boyd plan (the minimum benefit provision, the voluntary contributions, the savings subsidy, and the changes to the PIA formula) will do more to lift women out of poverty than current law Social Security.